

## Message Text

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ACTION SS-30

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FM USINT CAIRO

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S E C R E T CAIRO 589

EXDIS

E.O. 11652: GDS

TAGS: BEXP EG

SUBJECT: SUMED NEGOTIATIONS

REF: CAIRO 528

1. DORMAN AND HART OF BECHTEL UNEXPECTEDLY APPEARED YESTERDAY AFTERNOON. DORMAN TOLD ME O'CONNELL AND OTHER MEMBERS OF BECHTEL GROUP HAD ADVISED STEVE BECHTEL, JR. OF IMPASSE IN SUMED-BECHTEL NEGOTIATIONS REPORTED REFTEL. AFTER FULL DISCUSSION, BECHTEL HAD DECIDED THEY SHOULD CONTINUE WITH PROJECT IF AT ALL POSSIBLE. SAME TIME, SOME SATISFACTORY SOLUTION TO THE ESCALATING PRICE ISSUE NEEDS BE FOUND. ACCORDINGLY, DORMAN WAS TO PUT EGYPTIANS ON NOTICE IN WRITING THAT (A) BECHTEL REGARDS INITIAL CONTRACT AS HAVING LEGALLY EXPIRED JANUARY 31 (THIS HAD EARLIER BEEN DONE ORALLY), AND (B) BECHTEL IS AGREEABLE TO AN EXTENSION OF THAT CONTRACT, PROVIDED CERTAIN ASPECTS THEREOF, INCLUDING PRICES, ARE SATISFACTORILY RENEGOTIATED. DORMAN ALSO INDICATED THEY HAD SOUNDED OUT BECHTEL REPRESENTATIVES IN VARIOUS MIDDLE EAST STATES WHERE THE COMPANY IS NOW WORKING TO ASCERTAIN LIKELY LOCAL REACTIONS TO A BECHTEL PULLOUT FROM THE SUMED PROJECT. UNANIMOUS VIEW HAD BEEN THAT DOING SO WILL HARM BECHTEL'S IMAGE AND MAKE IT MORE DIFFICULT TO OBTAIN OTHER CONTRACTS IN THE AREA.

2. I SAID I WAS PLEASED TO HEAR OF BECHTEL DECISION

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AND TOLD DORMAN AND HART IN CONFIDENCE OF MY PERTINENT

TALK WITH FAHMY RE SUMED-BECHTEL IMPASSE AND MY REQUEST UNSATISFACTORY STATUS OF NEGOTIATIONS BE INFORMALLY CONVEYED TO SADAT FOR WHATEVER ACTION HE MIGHT DEEM APPROPRIATE (CAIRO 543). A DAY OR SO LATER FAHMY HAD ASSURED ME THAT "EVERYTHING WILL WORK OUT ALL RIGHT." SADAT WOULD GET WORD TO APPROPRIATE EGYPTIAN OFFICIALS TO CONDUCT NEGOTIATIONS IN BUSINESSLIKE MANNER. DORMAN EXPRESSED APPRECIATION.

3. AFTER MEETING LATE YESTERDAY AFTERNOON WITH EGYPTIAN OFFICIALS AMIN AND KRUSH, DORMAN AND HART CAME BY THE RESIDENCE TO BRIEF ME. MEETING, THEY EXPLAINED, HAD BEEN VERY CONCILIATORY. DORMAN FELT SADAT'S INSTRUCTINS MUST HAVE GOTTEN DOWN. THE TWO EGYPTIANS SAID THAT KRUSH HAD JUST BEEN FORMALLY NAMED DIRECTOR OF SUMED. ON THE OUTSTANDING FINANCIAL ISSUE, EGYPTIANS SAID THEY EXPECTED TO BE ABLE TO WORK OUT AN ARRANGEMENT CONSISTING OF A 200 MILLION DOLLAR GUARANTEE PLUS A STANDBY REVOLVING FUND TO BE REPLENISHED AS NEEDED IN CONNECTIN WITH OPERATIONAL EXPENSES. ON THE ISSUE OF WHO DETERMINES SUPPLIERS, EGYPTIANS HAD AGREED THAT BECHTEL CBI TANKAGE CONTRACT ACCEPTABLE. IN CONNECTION WITH FUTURE SUPPLIERS, HOWEVER, SUMED WILL HAVE A REPRESENTATIVE IN BECHTEL'S SAN FRANCISCO OFFICE TO WORK WITH THE COMPANY TO EVALUATE SUPPLY TENDERS AND QUOTATIONS BEFORE SUPPLY CONTRACTS ARE ENTERED INTO. DORMAN EXPRESSED PERSONAL VIEW SUCH ARRANGEMENT SHOULD BE SATISFACTORY. I SUGGESTED THAT AT APPROPRIATE TIME SUMED BOARD MEMBERS BE ASKED TO INSURE THEIR REPRESENTATIVE IN SAN FRANCISCO BE GIVEN ADEQUATE AUTHORITY TO MAKE DECISIONS. FAILURE TO DO SO COULD CAUSE LONG DELAYS. EGYPTIANS ALSO AGREED THAT LETTER WHICH BECHTEL HAD EARLIER SIGNED RE POSSIBLE USG ACTIONS TO PREVENT COMPANY FROM FULFILLING CONTRACT MAY BE WITHDRAWN.

4. ON BALANCE DORMAN AND HART WERE PLEASED WITH SESSION. THEY LEFT FOR BEIRUT LAST NIGHT TO REPORT TO SENIOR BECHTEL MANAGEMENT AND WILL PROBABLY BE BACK FOR 9 FEBRUARY SUMED ORGANIZATIONAL MEETING. I SUGGESTED THAT AT LEAST ONE SENIOR BECHTEL OFFICIAL, SUCH AS

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HART, BE PRESENT DURING NEXT SEVERAL WEEKS TO WORK WITH EGYPTIANS ON EXPEDITIOUS FINALIZATION OF CONTRACT.  
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